

Industry Expert Guide to Information Requirements for NAPCS

In 1997, the United States and its NAFTA partners – Canada and Mexico – formally adopted a common system – the North American Industry Classification System or NAICS – for defining industries and for classifying the activity of the economic units in each country. Following on NAICS, the countries launched in 1999 a multi-phase initiative to develop a North American Product Classification System (NAPCS) whose purpose is to provide a common market-orientated framework for classifying the products produced by NAICS industries. To create this system, it is first necessary to identify and define the products produced by all industries. Although extensive product detail and data collection presently exists for goods-producing industries in the United States and elsewhere, the identification of the detailed products produced by service-producing industries is very limited.

In recognition of this fact, the statistical agencies of the three NAFTA countries have agreed that NAPCS will initially focus on identifying and defining the products produced by services-producing industries. To that end, Phase I of NAPCS (scheduled for completion in mid-2000) focused on identifying products produced by industries in four selected NAICS service sectors: Sector 51, Information; Sector 52, Finance and Insurance; Sector 54, Professional, Scientific, and Technical Services; and Sector 56, Administrative and Support and Waste Management and Remediation Services.

In July of 2001, Phase II of NAPCS will extend coverage to industries in five additional NAICS service sectors. These sectors include: Sector 48-49: Transportation and Warehousing; Sector 61: Educational Services; Sector 62: Health Care and Social Assistance; Sector 71; Arts, Entertainment, and Recreation; and Sector 72: Accommodation and Food Services. Phase II is scheduled for completion in mid-2003.

The objective of NAPCS is to identify, define, and classify the final products produced by the industries in each of these sectors. The final products of reporting units in a service industry are defined as the products that are created and transacted (sold or transferred) by the establishments or reporting units in the industry to other reporting units, enterprises, institutions or persons; domestic or international. Moreover, we recognize that many service industries provide three types of final service products: simple services, composite services, and bundled services. A *simple service product* embodies a single transparent service whose real output can be measured in physical units or counts, such as a traditional haircut (number of hair cuts) or basic phone service (number of minutes). A *composite service product* embodies several distinct services that are produced together and sold as a unit; the customer is not free to pick and choose among the services in the composite. The services may be produced together by virtue of regulations, the production process, safety or hygiene requirements, or industry practice. Examples include a conventional hotel room rental with maid service, salon haircuts including shampooing, and an office visit to a doctor with required diagnostic tests. A *bundled service product* contains a collection of services that has been negotiated between the service provider and the customer and whose composition may vary by customer. Examples include traditional phone service plus call waiting and caller ID, a

bundle of information services that can be transmitted through a common medium (cable, satellite) and that may include voice, data and/or visual services. Elsewhere it is common to buy different bundles of janitorial services, legal services, or accounting services, etc.

The process of identifying and defining services products and of creating a formal product classification system requires a working knowledge of the service industries producing these products, including an understanding of the underlying production process used to produce the service products. This knowledge provides the insight necessary to (1) distinguish intermediate products, which are produced and consumed within the establishment in the process of producing another product, from final products that are sold outside of the establishment and (2) provide direction to the data collection process required to measure the nominal output and prices for the service products actually generated by the production process in service industries. In many situations, for example, it may be necessary to collect not only the gross sales revenue for the service product but also the cost of goods sold that is embodied in that revenue. For instance, the gross revenue for the loan service product created by banks or the service product created by an employment leasing company overwhelmingly reflects resales/cost of goods sold (interest expense for loans, wages and supplements for leased employees) rather than the cost of the activities actually performed by the firm in creating these service products.

For these reasons, the assistance of individuals with expert knowledge of the industries in each of the above NAICS sectors is vital. As an industry expert to the subcommittee on NAICS Sector 54, Professional, Scientific, and Technical Services, you will be providing information to the subcommittee in the form of a presentation and/or in the form of written materials. This information will be focused on activities within specific 5 or 6-digit NAICS industries and would be most helpful if it could address several of the issues listed below.

A. General Overview of the Industry

- A discussion of the scope of services provided by the industry.
- Recent changes/developments in types of services provided.
- A discussion of the size range and distribution of establishments in the industry including names of the top firms in the industry.
- The extent to which firms in the industry are engaged in international sales of service products.
- Information on any restrictions requiring professional licenses, certifications, or degrees to perform specific services in this industry.

B. A Working Description of the Production Process Typically Followed by Firms in This Industry

- Information on any government regulations impacting the production of services by this industry.
- How are the needs of the customer and the service products to be sold to the customer assessed?

- What are the typical steps followed by a firm in fulfilling the transaction of these services to the customer?
- What procedures are utilized to formalize the transaction between a firm and a customer? How is a customer billed when the service is completed?

C. A Description of the Industry's Final Service Products

- What are the final products produced by this industry?
- For each of the final products, how does the industry define these products?
- Are any of these products consumed completely within the reporting unit in another phase of the production process?
- How standardized are the services products provided in this industry? Are products provided fairly well-defined and uniformly provided to a variety of customers?
- Within this industry, are particular service products typically sold as a bundle or unit, for a single quoted price that differs from the sum of the individual prices for the products in the bundle? Please identify important bundled service products vended by your industry.
- What are the service products produced by other industries which are substitutes for those offered by this industry?

D. Pricing Conventions

- How is a price determined for the service products of this industry? (fee based on type of staff performing various parts of the production of the service, fee based on type of service only,...)?
- How is this price conveyed to the customer? (formal contract, letter of engagement, fee per hour)?
- What is the physical unit that is priced (liters or quarts, kilos or pounds, meters or miles, hours worked, type of tools or machine required to provide the service, type of specialist that does the work, object rented, number of seats, number of tickets sold, and so forth)?

E. Record Keeping and Reporting

- Do firms typically maintain records providing details of the services completed and the invoice or bill presented?
- What is the appropriate reporting unit in your industry (establishment, regional headquarters, or national office, for example)?
- Do the reporting units in the industry typically compile information on the value of the detailed service products sold and can they report this information?